

**DIRECT TESTIMONY OF**

**CHARLES E. JACKSON**

**ON BEHALF OF**

**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2019-290-WS**

**IN RE: APPLICATION OF BLUE GRANITE WATER COMPANY FOR  
APPROVAL TO ADJUST RATE SCHEDULES AND INCREASE RATES**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

**A.** My name is Charles E. Jackson. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) as an Auditor.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received my Bachelor of Science Degree in Business Administration with a major in Accounting from the University of South Carolina in December 2014. I began my employment as an Auditor with ORS in May 2016 and since have participated in a variety of audits involving the regulation of telecommunications, electric, gas, water and wastewater utilities.

**Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?**

**A.** No, I have not previously testified before the Commission.

**Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?**

A. ORS represents the public interest as defined by the South Carolina General Assembly as:

[T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

**Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?**

A. The purpose of my testimony is to set forth ORS's findings and recommendations for certain adjustments resulting from ORS's examination of the application of Blue Granite Water Company ("BGWC" or "Company"), in Docket No. 2019-290-WS. Specifically, I address ORS's findings and recommendations for the following adjustments:

- Adjustment #5 – Salaries and Wages - Maintenance
- Adjustment #6 – Capitalized Time
- Adjustment #9e – Rebranding - Maintenance
- Adjustment #11b – Remove Meter Reading Expenses due to Advanced Metering Infrastructure ("AMI")
- Adjustment #12b – Remove Chemicals Associated with Decommissioned Plants
- Adjustment #13b – Rebranding - Transportation
- Adjustment #14 – Salaries and Wages - General
- Adjustment #15c – Non-Allowables - Office Supplies & Other Office Expenses
- Adjustment #17a – Pension & Other Benefits
- Adjustment #17b – Service Awards
- Adjustment #21b –AMI Data Support, York County Franchise Fees and York County Asset Lease
- Adjustment #21d – Rebranding – Outside Services - Other
- Adjustment #23b – Non-Allowables - Miscellaneous
- Adjustment #26a – Payroll Taxes

**Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?**

A. Yes. The review to which I testify was performed by me or under my supervision.

**Q. PLEASE EXPLAIN ORS'S RECOMMENDED ADJUSTMENTS.**

A. Adjustment #5 – Salaries and Wages - Maintenance

1           ORS proposes an adjustment to annualize salaries attributable to maintenance  
2           expenses. The Company proposes an adjustment in the amount of (\$1,155,286) to annualize  
3           salaries and wages as of June 30, 2019. ORS proposes an adjustment in the amount of  
4           (\$1,344,062) to annualize salaries and wages as of October 31, 2019 based on updated  
5           information that was provided by the Company. The updated payroll information includes  
6           salary and wage increases granted since the end of the test year, the removal of terminated  
7           employees, and the addition of new employees hired since the end of the test year. ORS  
8           verified salaries and wages of the employees by reviewing paystubs from the Company and  
9           calculating hourly rates and yearly salary amounts.

10           Adjustment #6 – Capitalized Time

11           ORS proposes an adjustment to reflect the capitalized time based on pro forma  
12           salaries. The Company proposes an adjustment in the amount of \$58,345 using the salary  
13           and wages data as of June 30, 2019. ORS verified the capitalized time percentages from the  
14           data as of June 30, 2019 and used those percentages on the annualized salary and wages data  
15           from October 31, 2019 to propose an adjustment of \$73,614.

16           Adjustment #9e – Rebranding - Maintenance

17           ORS proposes to adjust maintenance and repair for rebranding expenses within the  
18           test year. It is ORS's position that rebranding expenses should not be allowable for  
19           ratemaking purposes as they are not necessary to provide water and wastewater services and  
20           do not provide a benefit to customers. ORS views rebranding expenses as comparable to the  
21           transition costs deemed not recoverable from customers in Commission Order No. 2018-804  
22           pertaining to South Carolina Electric and Gas's ("SCE&G") merger with Dominion Energy.  
23           Included within this adjustment are new uniforms identified by the Company in Audit

Request #12 as expenses related to the rebranding of Carolina Water Services, Inc. (“CWS”), to BGWC. The amount BGWC identified as rebranding for maintenance is \$12,832. ORS verified the expenses identified by the Company and proposes an adjustment of (\$12,832).

Adjustment #11b – Remove Meter Reading Expenses due to AMI

ORS proposes an adjustment of (\$28,067) to reflect the reduction in meter reading expenses due to the deployment of AMI in the Lake Wylie subdivision (“Lake Wylie”). ORS verified the adjustment by comparing the meter reading expense to the general ledger data for Lake Wylie.

Adjustment #12b – Remove Chemicals Associated with Decommissioned Plants

ORS proposes an adjustment of (\$31,519) to adjust the test year’s chemical expenses for the removal of chemical expenses associated with the decommissioned Stonegate and Friarsgate treatment plants. ORS verified the adjustment by comparing the chemical expenses to the general ledger data for the Stonegate and Friarsgate treatment plants.

Adjustment #13b – Rebranding - Transportation

ORS proposes to adjust transportation for rebranding expenses within the test year. It is ORS’s position that rebranding expenses should not be allowable for ratemaking purposes as they are not necessary to provide water and wastewater services and do not provide a benefit to customers. ORS views rebranding expenses as comparable to the transition costs deemed not recoverable from customers in Commission Order No. 2018-804 pertaining to SCE&G’s merger with Dominion Energy. Included within this adjustment are vehicle logo and decal expenses related to the rebranding of CWS to BGWC. The amount BGWC identified as rebranding for transportation in Audit Request #12 is \$8,444. ORS has verified these expenses and proposes an adjustment in the amount of (\$8,444).

Adjustment #14 – Salaries and Wages - General

ORS proposes an adjustment to annualize office salaries for the test year. The Company proposes an adjustment in the amount of \$517,333 to annualize salaries and wages as of June 30, 2019. ORS proposes an adjustment in the amount of \$538,807 to annualize salaries and wages as of October 31, 2019 based on updated information that was provided by the Company. The updated payroll information includes salary and wage increases granted since the end of the test year, the removal of terminated employees, and the addition of new employees hired since the end of the test year. ORS verified salaries and wages of the employees by reviewing paystubs from the Company and calculating the hourly rates and yearly salary amounts.

Adjustment #15c – Non-Allowables - Office Supplies & Other Office Expenses

ORS proposes to adjust office supplies and other office expenses for expenses within the test year that are not necessary to provide water and wastewater services and do not provide a benefit to customers. Included within this adjustment are the following:

- Office expenses identified by the Company related to the rebranding of CWS, to BGWC in Audit Request #12. Additionally, ORS found several rebranding expenses that were not identified by the Company.
- Chamber of Commerce (“COC”) membership dues. Fifty percent of these expenses will be removed.
- Flower arrangements
- Donations to parks and environmental organizations
- Scholarships and Sponsorships

- Expenses selected for testing that the Company did not provide sufficient supporting documentation. These items were disallowed due to no clear business purpose or no itemized receipt.

**Table 1** below provides a summary of the office supplies and other office expenses adjustment for non-allowable expenses.

**Table 1:**

|                               |            |
|-------------------------------|------------|
| Rebranding Expenses           | (\$3,191)  |
| COC Membership Dues – 50%     | (\$1,810)  |
| Flower Arrangements           | (\$171)    |
| Donations                     | (\$7,000)  |
| Scholarships and Sponsorships | (\$5,000)  |
| Insufficient Documentation    | (\$5,530)  |
| Total                         | (\$22,702) |

**Adjustment #17a – Pension & Other Benefits**

ORS and the Company propose an adjustment to annualize pensions and other benefits associated with pro forma salaries. The Company proposes an adjustment in the amount of (\$62,113) using the pension and benefits data as of June 30, 2019. ORS proposes an adjustment in the amount of (\$161,830) using the pension and benefits data as of October 31, 2019 that was provided to ORS by the Company.

**Adjustment #17b – Service Awards**

ORS proposes to adjust pension and other benefits for service awards within the test year. Included within this adjustment are service awards for employees who reach career

1 milestones. Included in the sample selected and analyzed by ORS were expenses for a 65”  
2 LED Curved Samsung TV and a 1.15 carat diamond ring from a vendor named Awards  
3 Network. ORS determined that all the items from this vendor were service awards and should  
4 be treated as expenses that are not necessary to provide water and wastewater services and  
5 do not provide a benefit to customers. ORS proposes an adjustment in the amount of  
6 (\$3,211).

7 Adjustment #21b – AMI Data Support, York County Franchise Fees and York County Asset  
8 Lease

9 ORS proposes an adjustment of \$214,731 to reflect the data support costs for  
10 installing Lake Wylie AMI meters, along with the franchise and capital recovery fees  
11 incurred due to the York County franchise agreement. The franchise agreement describes the  
12 terms and conditions with respect to the lease of certain water and sewer service facilities in  
13 York County that provide BGWC the non-exclusive franchise to operate water and sewer  
14 systems in designated areas of the county. The agreement was approved by this Commission  
15 on May 2, 2018, per Order No. 2018-325.

16 Adjustment #21d – Rebranding – Outside Services - Other

17 ORS proposes to adjust outside services for rebranding expenses within the test year.  
18 It is ORS’s position that rebranding expenses should not be allowable for ratemaking  
19 purposes as they are not necessary to provide water and wastewater services and do not  
20 provide a benefit to customers. ORS views rebranding expenses as comparable to the  
21 transition costs deemed not recoverable from customers in Commission Order No. 2018-804  
22 pertaining to SCE&G’s merger with Dominion Energy. Included within this adjustment are  
23 legal fees identified by the Company in Audit Request #12 as expenses related to the

rebranding of CWS to BGWC. In addition, ORS found several legal fees associated with rebranding that were not identified by the Company. ORS proposes an adjustment in the amount of (\$9,833).

Adjustment #23b – Non-Allowables - Miscellaneous

ORS proposes to adjust miscellaneous expenses for expenses within the test year that are not necessary to provide water and wastewater services and do not provide a benefit to customers. Included within this adjustment are expenses for dinners with alcohol in the amount of \$3,992, and items that were not supported by sufficient documentation in the amount of \$2,686. The items that were removed for lack of supporting documentation did not contain a clear or valid business purpose or were not supported by itemized receipts. As a result, ORS proposes an adjustment in the amount of (\$6,678).

Adjustment #26a – Payroll Taxes

ORS and the Company propose an adjustment to reflect payroll taxes associated with the pro forma adjusted salaries & wages. The Company proposes an adjustment of (\$14,449) using the salary and wages data as of June 30, 2019. ORS proposes an adjustment in the amount of (\$33,874) based on the annualized salary and wages data from October 31, 2019 that was provided to ORS by the Company.

**Q. WILL YOU UPDATE YOUR TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?**

**A.** Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information become available not previously provided by the Company.

**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**



1     **A.**             Yes, it does.